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MONTANA LOTTERY

FINANCIAL STATEMENTS
(Unaudited)

March 31, 2015

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MONTANA LOTTERY

FINANCIAL STATEMENTS
(Unaudited)

March 31, 2015

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APPOINTIVE OFFICIALS

Angela Wong, Lottery Director

John Tarr, Lottery Assistant Director for Security

LOTTERY COMMISSION		TERM EXPIRES
Tom Keegan	Helena	January 1, 2018
Wilbur Rehmann	Helena	January 1, 2017
Leo Prigge	Butte	January 1, 2019
Cindy Hiner	Deer Lodge	January 1, 2017
Frank DiFonzo	Sidney	January 1, 2017

REPORT DISTRIBUTION

According to Section 23-7-202(9), MCA, copies of this report must be distributed to the following:

Governor – Steve Bullock
Director of DOA – Sheila Hogan
Legislative Auditor – Tori Hunthausen
President of the Senate – Debby Barrett
Speaker of the House – Austin Knudsen

The law also states "the President of the Senate and the Speaker of the House will determine the report distribution to each member of the appropriate committee of each house of the legislature." The President of the Senate and the Speaker of the House have requested that this report be distributed to the following committees:

HOUSE – STATE ADMINISTRATION COMMITTEE

Jeff Essmann	Bill Harris	Casey Schreiner
Bryce Bennett	Bob Brown	Moffie Funk
Frank Garner	Edward Greef	Denise Hayman
Jessica Karjala	Austin Knudsen	Debra Lamm
Forrest Mandeville	Wendy McKamey	Dale Mortensen
Jean Price	Ray Shaw	Kathy Swanson
Susan Webber	Art Wittich	

HOUSE – BUSINESS AND LABOR COMMITTEE

Tom Berry	Jeffrey Welborn	Ryan Lynch
Christy Clark	Willis Curdy	Steve Fitzpatrick
Chuck Hunter	George Kipp	Mike Lang
David Moore	Mark Noland	Andrea Olsen
Gordon Pierson	Christopher Pope	Vince Ricci
Tom Richmond	Daniel Salomon	Scott Staffanson
Tom Steenberg		

SENATE – STATE ADMINISTRATION COMMITTEE

Dee Brown	Roger Webb	Robyn Driscoll
Jeddediah Hinkle	Doug Kary	Sue Malek
Lea Whitford		

SENATE – BUSINESS, LABOR, AND ECONOMIC AFFAIRS COMMITTEE

Ed Buttrey	Elsie Arntzen	Dee Brown
Pat Connell	Tom Facey	Cary Smith
Sharon Stewart-Peregoy	Gordon Vance	Gene Vuckovich
Lea Whitford		

Montana LOTTERY
For the fun of it! 2525 N. Montana, Helena, MT 59601 • P: 406-444-5825 • F: 406-444-5830

June 2015

Montana Lottery Commission:

The past quarter has been an active and exciting one. The Lottery has had a busy spring preparing for another segment of our Fantasy Racing.

Even though game sales are slightly down from last year, we are experiencing a strong sales year overall. Scratch, Montana Cash, and Hot Lotto sales each experienced an increase over last year's third quarter. Scratch sales were 7.7% higher, Montana Cash increased by 23.5%, and Hot Lotto sales were up by 7.1.

The rest of the games have seen a decrease compared to last year at this time. Powerball sales were 19.4% lower, Wild Card sales were 15.8% lower, Mega Millions sales dropped by 27.0%, EZ Play sales decreased by 4.1%, and 10 Spot sales slipped by 1.6%.

Overall, there was a small decrease in operating revenue of 3.0% along with a decrease in direct game costs of 1.7%. Combined with a 3.5% increase in operating expenses, the transfer for the third quarter was $2,723,226 which is $305,998 more than last year at this time. The percentage of transfer to revenue was 20.5% this quarter compared to 19.3% last year's third quarter.

The Lottery plans to introduce 50+ new scratch games during the fiscal year 2015. We plan to continue building scratch sales through innovative game themes and offering games with built-in name recognition (licensed property games).

We are looking forward to a busy summer with another season of Fantasy Racing, along with the introduction of new EZ play games.

Sincerely,

Angela Wong

Angela Wong
Director

MONTANA LOTTERY
STATEMENT OF NET POSITION
MARCH 31, 2015 AND 2014
(Unaudited)

	Period Ended March 31, 2015	Period Ended March 31, 2014
ASSETS:		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 3,345,345	$ 3,660,475
Receivables (Net)	2,239,552	2,128,023
Inventories	449,991	453,881
TOTAL CURRENT ASSETS	6,034,888	6,242,379
NONCURRENT ASSETS		
Computer, Furniture & Equipment	2,979,956	2,981,106
Leasehold Improvements	59,781	45,448
Accumulated Depreciation	(2,453,181)	(1,956,676)
Multi-State Reserve fund	1,383,323	1,614,248
TOTAL NONCURRENT ASSETS	1,969,879	2,684,126
TOTAL ASSETS	$ 8,004,767	$ 8,926,505
LIABILITIES:		
CURRENT LIABILITIES		
Accounts Payable	$ 399,536	$ 376,076
Estimated Prize Liability	2,776,787	2,880,051
Due to Primary Government	3,394	2,924
Transfer Obligations	2,723,226	2,417,228
Deferred Revenue	212,767	212,234
Accrued Compensated Absences	109,100	168,989
Current Portion Long-Term Obligations	72,168	72,168
TOTAL CURRENT LIABILITIES	6,296,978	6,129,670
NONCURRENT LIABILITIES		
Multi-State Prize Liability	1,213,792	1,406,973
Accrued Compensated Absences	93,500	18,557
Long Term Obligations	0	72,168
Other Post Employment Benefits	532,562	589,890
TOTAL NONCURRENT LIABILITIES	1,839,854	2,087,588
TOTAL LIABILITIES	8,136,832	8,217,258
NET POSITION		
Net Investment in Capital Assets	514,388	925,542
Unrestricted	(646,453)	(216,295)
TOTAL NET POSITION	$ (132,065)	$ 709,247

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE QUARTERS AND NINE MONTHS ENDED MARCH 31, 2015 AND 2014
(Unaudited)

	Quarter Ended March 31, 2015	Quarter Ended March 31, 2014	Nine Months Ended March 31, 2015	Nine Months Ended March 31, 2014
OPERATING REVENUES:				
Scratch ticket revenue	$ 4,461,280	$ 4,193,668	$ 13,412,415	$ 12,459,046
Powerball revenue	3,902,953	3,670,820	9,908,013	12,287,473
Montana Cash revenue	1,039,146	1,006,538	3,368,040	2,727,693
Wild Card revenue	397,241	450,654	1,218,886	1,448,016
Hot Lotto revenue	724,285	776,971	2,415,767	2,256,493
MT Millionaire revenue	0	0	2,700,000	2,600,020
Mt. Sports Action revenue	1,711	1,516	5,601	5,042
Mega Millions revenue	939,812	1,295,030	3,088,528	4,231,044
10 Spot revenue	163,803	156,732	475,453	482,981
EZ Play revenue	874,133	1,003,043	2,750,958	2,868,040
Lucky for Life revenue	788,634	0	788,634	0
License, permits, and misc	926	1,257	10,101	8,823
Total Operating Revenues	13,293,924	12,556,229	40,142,196	41,374,671
Less Direct Game Costs:				
Scratch ticket prize expense	2,789,999	2,840,155	8,280,231	7,837,260
On-line ticket prize expense	4,739,195	4,461,712	14,558,158	15,503,480
Retailer commission	807,157	717,466	2,393,069	2,352,011
Cost of tickets sold	264,938	295,883	853,685	580,283
Vendor fees	803,422	763,971	2,364,943	2,452,567
Total Direct Game Costs	9,404,711	9,079,187	28,250,086	28,725,601
Income Before Operating Expenses	3,889,213	3,477,042	11,892,110	12,649,070
OPERATING EXPENSES:				
Advertising	136,203	143,022	322,195	403,867
Advertising Production	40,849	40,416	146,779	176,346
Audit Fees	13,544	4,860	27,327	29,193
Bad Debts Expense	(456)	0	(4,331)	(4,760)
Communications	33,978	37,220	106,933	99,813
Contractual Services	54,572	19,703	98,196	47,505
Depreciation and Amortization	123,975	127,856	377,901	385,600
Interest	1,210	2,248	4,409	7,521
Administrative Service Fee	18,205	16,238	48,615	48,713
Multi-State Dues	886	0	31,835	44,308
Public Relations	174	617	58,156	58,381
Other	8,979	8,120	20,934	18,663
Personal Services	626,897	494,763	1,633,665	1,448,142
Repairs and Maintenance	5,933	3,786	16,598	8,007
Supplies and Materials	13,022	39,881	130,639	173,840
Travel	8,291	5,539	34,970	31,676
Utilities and Rent	160,887	194,548	472,520	429,897
Total Operating Expense	1,242,949	1,138,617	3,525,341	3,405,712
Operating Income	2,646,264	2,338,425	8,366,769	9,243,358
NONOPERATING REVENUES (EXPENSES)				
Interest earnings	864	1,615	2,584	4,876
Gain/Loss on sale of asset	(1,090)	0	(1,090)	0
Total Nonoperating Revenues(Expenses)	(226)	1,615	1,494	4,876
Income Before Operating Transfers	2,648,038	2,340,040	8,368,263	9,248,034
Operating Transfers Out - General Fund	(2,723,226)	(2,417,228)	(8,599,826)	(9,479,597)
Total Operating Transfers	(2,723,226)	(2,417,228)	(8,599,826)	(9,479,597)
CHANGE IN NET POSITION	(77,188)	(77,188)	(231,563)	(231,563)
Total Net Position, Beginning of Period	(54,877)	786,435	632,060	940,810
Prior Period Adjustments	-	-	(532,562)	-
TOTAL NET POSITION, END OF PERIOD	$ (132,065)	$ 709,247	$ (132,065)	$ 709,247

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION
AND RECONCILIATION OF BUDGET AND ACTUAL (BUDGETARY BASIS) TO GAAP BASIS
FOR THE NINE MONTHS ENDED MARCH 31, 2015
(Unaudited)

	Budget Fiscal Year July 1, 2014 - June 30, 2015	Actual Nine Months Ended March 31, 2015 (Unaudited)	Actual as a Percent of Final Budget (%)
REVENUES:			
Scratch ticket revenue	$ 16,800,000	$ 13,412,415	79.84
Powerball revenue	16,500,000	9,906,013	60.05
Montana Cash revenue	3,800,000	3,368,040	88.63
Wild Card revenue	2,050,000	1,218,686	59.45
Hot Lotto revenue	3,100,000	2,415,767	77.93
MT Millionaire revenue	2,700,000	2,700,000	100.00
MT Sports Action (Admin Fees)	6,000	5,601	93.35
10 Spot revenue	550,000	475,453	86.45
Mega Millions revenue	4,000,000	3,088,528	77.21
EZ Play revenue	4,000,000	2,750,958	68.77
Lucky for Life revenue	1,400,000	788,634	56.33
License, permits, and miscellaneous	15,000	10,101	67.34
Total Revenues	54,921,000	40,142,196	73.09
DIRECT GAME COSTS:			
Prizes - Scratch ticket	10,542,000	8,280,231	78.55
Prizes - Lotto games	18,700,000	13,006,908	69.56
Prizes - MT Millionaire	1,551,250	1,551,250	100.00
Retailer commissions	3,125,000	2,393,069	76.58
Ticket cost - scratch games	910,000	653,685	71.83
Ticket cost - vendor fees	3,184,200	2,364,943	74.27
Total Direct Game Costs	38,012,450	28,250,086	74.32
OPERATING EXPENSES:			
Advertising	456,251	322,195	70.62
Advertising Production	220,000	146,779	66.72
Audit Fees	75,405	27,327	36.24
Communications	140,584	106,933	76.06
Contractual Services	88,357	96,196	108.86
Interest	5,360	4,409	82.26
Administrative Service Fee	64,820	48,615	75.00
Multi-State Dues	50,000	31,835	63.67
Public Relations	65,000	58,156	89.47
Other	97,602	20,934	21.45
Personal Services	2,031,345	1,633,665	80.42
Repairs and Maintenance	27,850	16,598	59.60
Supplies and Materials	192,822	130,639	67.75
Travel	64,625	34,970	54.11
Utilities and Rent	690,943	472,520	68.39
Equipment	28,000	0	0.00
Total Operating Expenses	4,298,974	3,151,771	73.31
Operating Income	12,609,576	8,740,339	69.32
NONOPERATING REVENUES (EXPENSES):			
Interest Earnings	5,000	2,278	45.56
NET INCOME (BUDGETARY BASIS)	$ 12,614,576	$ 8,741,527	69.30
RECONCILIATION OF BUDGETARY/GAAP BASIS:			
Capitalized equipment purchases	28,000	0	0.00
Adjustment for depreciation expense	(514,016)	(377,901)	73.52
Bad Debts	0	4,331	0.00
MUSL interest earnings	2,000	306	15.30
Total Reconciling Items	(484,016)	(373,264)	
NET INCOME (GAAP BASIS)	$ 12,130,560	$ 8,368,263	68.98

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY

ANALYSIS OF REVENUES AND EXPENSES BY PRODUCT

FOR THE NINE MONTHS ENDED MARCH 31, 2015

(Unaudited)

	SCRATCH	POWERBALL	MONTANA CASH	WILD CARD	HOT LOTTO	MT MILLIONAIRE	MEGA MILLIONS	10 SPOT	EZ PLAY	LUCKY FOR LIFE	MT SPORTS ACTION	ADMIN
REVENUES:	$ 13,412,415	$ 9,908,013	$ 3,368,040	$ 1,218,686	$ 2,415,767	$ 2,700,000	$ 3,088,528	$ 475,453	$ 2,750,958	$ 788,634	$ 5,601	$ 10,101
DIRECT GAME COSTS:												
Prize Expense	8,280,231	4,819,668	1,824,136	673,383	1,173,917	1,551,250	1,504,596	257,999	2,333,418	408,846	0	10,945
Retailer Commissions	1,057,056	495,589	168,445	60,954	120,823	135,000	154,448	23,774	137,548	39,432	0	0
Cost of Tickets Sold	653,685	0	0	0	0	0	0	0	0	0	0	0
Vendor Fees	782,665	583,621	204,013	78,996	148,652	156,624	178,706	27,582	159,002	45,082	0	0
NET OPERATING REVENUE	2,638,778	4,009,135	1,171,446	405,353	972,375	857,126	1,250,778	166,098	120,990	295,274	5,601	(844)
OPERATING EXPENSES:												
Advertising	14,458	5,249	836	6,274	289	143,701	12,675	289	289	123,157	0	14,981
Advertising Production	10,495	7,968	11,367	6,073	5,346	65,420	10,874	0	0	29,236	0	0
Audit Fees	0	0	0	0	0	0	0	0	0	0	0	27,327
Bad Debts	0	0	0	0	0	0	0	0	0	0	0	(4,331)
Communications	42,773	0	0	0	0	0	0	0	0	0	0	64,160
Contractual Services	2,890	0	0	0	0	5,501	0	0	0	37,184	0	50,621
Depreciation and Amortization	71,802	34,011	34,011	26,453	26,453	34,011	11,337	11,337	11,337	22,674	22,674	71,801
Interest	0	0	0	0	0	0	0	0	0	0	0	4,409
Administrative Service Fee	12,154	4,862	4,375	3,403	3,403	2,917	1,458	1,458	1,458	1,458	1,458	10,209
Multi-State Dues	0	18,105	0	2,228	4,416	0	5,644	0	0	1,442	0	0
Public Relations	8,471	697	697	697	697	0	697	697	697	697	0	44,109
Other	1,237	0	0	0	0	452	0	0	0	0	0	19,245
Personal Services	408,416	163,367	147,030	114,357	114,357	98,020	49,010	49,010	49,010	49,010	49,010	343,070
Repairs and Maintenance	0	0	0	0	0	0	0	0	0	0	0	16,598
Supplies and Materials	3,686	6	6	6	6	0	6	6	6	0	0	126,914
Travel	2,517	312	315	315	315	0	315	315	315	315	0	29,936
Utilities and Rent	2,296	576	576	576	576	0	576	576	576	576	0	465,612
TOTAL OPERATING EXPENSES	581,195	235,153	199,213	160,382	155,856	350,022	92,592	63,688	63,688	265,749	73,142	1,284,661
OPERATING INCOME	2,057,583	3,773,982	972,233	244,971	816,517	507,104	1,158,186	102,410	57,302	29,525	(67,541)	(1,285,505)
NONOPERATING REVENUES (EXPENSES)												
Interest Earnings	0	0	0	0	0	0	0	0	0	0	0	2,584
OPEB Expenses	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL NONOPERATING REVENUES (EXPENSES)	0	0	0	0	0	0	0	0	0	0	0	1,494
NET INCOME BY PRODUCT	$ 2,057,583	$ 3,773,982	$ 972,233	$ 244,971	$ 816,517	$ 507,104	$ 1,158,186	$ 102,410	$ 57,302	$ 29,525	$ (67,541)	$ (1,284,011)
PROFIT AS A % OF REVENUE	15.34%	38.09%	28.87%	20.10%	33.80%	18.78%	37.50%	21.54%	2.08%	3.74%	N/A	N/A

NOTE: THIS IS 'NINE MONTHS' ACTIVITY AND THEREFORE SHOULD NOT BE INTERPRETED TO SHOW HOW OUR PRODUCTS HAVE PERFORMED IN PAST YEARS OR WILL PERFORM IN THE FUTURE.

MONTANA LOTTERY
Notes to the Financial Statements (Unaudited)
March 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity.

The Montana Lottery, established under the provisions of Section 23-7-101, Montana Code Annotated (MCA), was approved by the Montana electorate through Legislative Referendum No. 100 on November 4, 1986.

Montana's first lottery tickets went on sale June 24, 1987.

The Montana Lottery is operated by a five-member commission consisting of Montana residents appointed by the Governor. The Commission, by law, has the power to operate a state lottery, determine the types and forms of lottery games, set the ticket price, number and size of prizes, conduct lottery drawings, enter into agreements to offer lottery games in conjunction with other lottery states and countries, and prepare financial reports. The Montana Lottery is attached to the Montana Department of Administration for administrative purposes.

The Montana Lottery is included as an enterprise fund in the State of Montana's Comprehensive Annual Financial Report. In accordance with governmental accounting and financial reporting standards, there are no component units to be included within the Montana Lottery's financial statements as a reporting entity.

Basis of Presentation. The Montana Lottery reports its financial activity in accordance with generally accepted accounting principles (GAAP) as prescribed in pronouncements of the Governmental Accounting Standards Board (GASB).

Enterprise Fund. The Montana Lottery is classified as an Enterprise Fund of the Proprietary Fund Type. Enterprise Funds account for operations: a) financed and operated similar to private business enterprises, where the intent of the Legislature is that costs are to be financed or recovered primarily through user charges, or b) where the Legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate.

Basis of Accounting. The Montana Lottery's financial statements are prepared using the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable.

Property and Equipment. Property and equipment are recorded at cost. Donated property and equipment are recorded at their estimated fair market value at the date of donation. Ordinary maintenance and repairs are charged to operations as incurred; major renewals and betterments are capitalized. Upon disposition or retirement of property and equipment, the cost and related accumulated depreciation or amortization are removed from the accounts. Gain or loss on disposal is reflected in non-operating revenues and expenses. Depreciation and amortization are calculated on a straight-line basis over estimated useful lives of three to ten years. The Lottery conforms to the State of Montana capitalization threshold for capitalizing property and equipment as well as buildings and building/land improvements. The threshold for capitalizing property and equipment is $5,000 and the threshold for capitalizing buildings/land improvements is $25,000.

Revenue Recognition. Lottery scratch ticket sales are recorded as revenue based on the time the retailer activates the pack of tickets for sale. In accordance with an established policy, retailers may return unsold tickets to the Lottery for credit. Sales are decreased by an allowance for estimated ticket returns.

Ticket sales for lotto games Powerball, Wild Card, Montana Cash, Hot Lotto, Montana Millionaire, Mega Millions, and 10 Spot are recorded as revenue based on drawings. Tickets sold in advance for future drawings are recorded as deferred revenue until such time as the tickets become valid for the most current drawing.

Ticket sales for Fantasy Sports games are based upon MCA 23-4-302 and an interagency agreement between the Lottery and the Board of Horse Racing. The Lottery is only a facilitator of these games and charges an administrative fee for this service. The actual sales of these games are not reflected on the Lottery's financial statements as they are not income to the Lottery.

Classification of Revenues. The Lottery has classified its revenues as either operating or non-operating according to the following criteria:

Operating revenues – include activities that have characteristics of exchange transactions, including (1) ticket sales, net of returns, and (2) retailer license fees and administrative fees in relation to selling lottery tickets.

Non-Operating revenues – include activities that have the characteristics of non-exchange transactions, such as gifts and other revenue sources that are defined as non-operating revenues by GASB No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting," and GASB No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments." Types of revenue sources that fall into this classification are investment income, and gain or loss on disposition of assets.

2. OTHER ACCOUNTING ISSUES

New Accounting Guidance Implemented. For the year ended June 30, 2013, the Montana Lottery implemented the provisions of GASB Statement No. 63 – "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." The objective of this statement is to standardize the presentation of deferred outflows of resources, deferred inflows of resources, and their effects on a government's net position. For the Lottery, this entailed changing the titles of the financial statements. Also changed were the presentation of the net position section, and the overall accounting formula of the Statement of Net Position. GASB 63 changes the terminology of the different types of net position, which the Lottery has adopted, without any change to the financial information from Fiscal Year 2012.

For the year ended June 30, 2014, the Montana Lottery implemented the provisions of GASB Statement No. 65 – "Items Previously Reported as Assets and Liabilities." This statement essentially changes and redefines the different elements of a financial statement, specifically the Statement of Net Position. The Lottery has adopted this statement by changing the line item of "deferred revenue" to the new title of "unearned revenue" on the Statement of Net Position. This was not a restatement for Fiscal Year 2013 as this only changed the title for the same statement item without changing any amounts.

Prior Period Adjustments. Prior period adjustments reported in the accompanying financial statements relate to corrections of errors and changes in accounting policy from prior periods. The two most significant adjustments relate to Other Post Employment Benefits (OPEB). It was determined that OPEB liability was overstated by the amortization of Net OPEB Obligation and was not adjusted in the ending liability balance for each year, as it relates to the Annual Required Contribution. This actuarial calculation is now reflected in the liability as an implicit rate subsidy with the corrected ending liability balance. Also, it was determined that generally accepted accounting standards and state statutes did not intend to include the OPEB expense when determining the amount of transfer to the General Fund each year. This expense is now disregarded and added to the change in net position on the Statement of Revenues, Expenses, and Changes in Net Position. As a result of the above, the Net Position was increased by $101,192 for the amended amortization of the Net OPEB obligation and reduced by $488,054 for the recalculation of the transfer to the General Fund.

Reclassification and Restatement. In order to make certain prior year amounts compare to current year presentation on the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows, fiscal year 2013 items were adjusted to reflect the above Prior Period Adjustments. The restatement of fiscal year 2013 was due to the change in calculation of Other Post Employment Benefits and the calculation of the Transfer Obligations.

Free Tickets. Some Montana Lottery scratch games award free tickets as prizes. Net lottery ticket revenue does not include the value of free tickets given away and free plays won. The face value of these free ticket prizes distributed for the quarter and nine months ended March 31, 2015 was $122,932 and $363,945, respectively.

Promotional Credits. The Lottery issues promotional credits to retailers to be used to distribute free tickets to players. The tickets are distributed as part of a promotion run by the retailer, e.g., "Ask for the Sale" or second chance drawings. The Lottery also directly distributes scratch tickets for promotional purposes at trade shows, for media give-aways, and during new game introductions. The tickets distributed as a result of promotional credits are reflected as a reduction in revenue. The related prize expense and ticket cost for all promotions are reclassified as an advertising expense. For the quarter ended March 31, 2015, promotional credits resulted in a revenue reduction of approximately $5,301 and an expense reclassification of approximately $4,130. For the nine months ended March 31, 2015, promotional credits resulted in a revenue reduction of approximately $13,590 and an expense reclassification of approximately $10,375.

Prizes. Expenses for scratch prizes are recorded based on the predetermined prize structure for each game. Expenses for lotto prizes are recorded based on the predetermined prize structure for each individual game. No prize expense is recorded for free tickets distributed.

Unclaimed Prizes. Prizes for the lotto games must be claimed within six months after the appropriate draw date. Prizes for scratch games must be claimed within six months of the announced end of each game. The unclaimed prize amounts for the Montana Lottery lotto games are taken as a reduction in the Lottery Prizes Payable liability and the Prize Expense and are transferred to the State of Montana General Fund as a portion of the quarterly transfer. The amount of unclaimed prizes for all Montana Lottery games is represented in the table below.

	Quarter Ended 3/31/15	Quarter Ended 3/31/14	Year To Date 3/31/15	Year To Date 3/31/14
Lotto	$144,661	$165,778	$347,877	$398,245
Scratch	$ 0	$200,464	$459,349	$515,335
TOTALS	$144,661	$366,242	$807,226	$913,580

3. SUMMARY OF ACCOUNTS

Cash and Cash Equivalents. Cash and cash equivalents consist of interest-bearing deposits with the Montana Board of Investments short-term investment pool, cash on deposit in revolving account with a non-state financial institution and cash on deposit with the Montana State Treasurer that is part of the State's pooled cash and is not separately identifiable as to specific types of securities. These funds are highly liquid and may be drawn on daily.

Cash and cash equivalents consist of the following:

	March 31,	
	2015	2014
Short-term investment pool	$2,418,510	$2,115,296
Cash on deposit with State Treasurer	916,835	1,535,179
Cash in revolving deposit account	10,000	10,000
TOTALS	$3,345,345	$3,660,475

The bank balance of the revolving deposit account, not including outstanding deposits or checks, was $12,091 at March 31, 2015 and was covered by federal depository insurance. The carrying amount reported in the balance sheet for cash and cash equivalents approximates the fair market value.

Receivables. Receivables include $2,459,266, representing amounts due the Lottery for tickets purchased by retailers. An allowance for ticket returns is included in the receivables amount. This allowance represents a reduction in receivables at March 31, 2015, for estimated ticket returns. This is an estimate based on returns received to date, as well as an estimate of tickets unsold by retailers for games that have a public sale end date prior to April 1, 2015. The allowance for ticket returns is $233,242 at March 31, 2015. The return of vendor fees related to the allowance for returns is $13,528.

For the nine months ended March 31, 2014, receivables included $2,373,810, representing amounts due the Lottery for tickets purchased by retailers. An allowance for ticket returns is included in the receivables amount. This allowance represents a reduction in receivables as of March 31, 2014, for estimated ticket returns. This is an estimate based on returns received to date, as well as an estimate of tickets unsold by retailers for games that have a public sale end date prior to April 1, 2014. The allowance for ticket returns is $260,920 as of March 31, 2014. The return of vendor fees related to the allowance for returns is $15,133.

Inventories. Inventories consist of merchandise and supplies inventories. Merchandise inventory for the nine months ended March 31, 2015 and 2014 include scratch tickets valued at $376,409 and $362,296, respectively, that are stored in the warehouse, at retailers prior to being activated by the retailer, and with the marketing representatives. These ticket inventories are recorded at cost using the specific identification method and maintained on a perpetual inventory system. Tickets are charged to cost of tickets sold upon activation or after game end.

Supplies inventories include ticket dispensers, premiums and point-of-sale materials. For the nine months ended March 31, 2015, and 2014, supplies inventories totaled $73,582 and $91,585, respectively. These inventories are also recorded at cost using the specific identification method.

Property and Equipment. A summary of property and equipment for the Lottery is as follows:

	June 30, 2014	Additions	Deletions	March 31, 2015
Leasehold Improvements	$ 59,781	$ -	$ -	$ 59,781
Furniture & Equipment	$ 2,981,106	$ 9,750	$ (10,900)	$ 2,979,956
Accumulated Depreciation	$(2,085,091)	$ (377,901)	$ 9,811	$(2,453,181)

Estimated Prize Liability. The estimated prize liability represents the Lottery's estimate of prizes payable related to games in process at quarter end based on the predetermined prize structure of each outstanding game.

Obligation to Tranfer Funds. The Lottery is required to transfer its net revenue to the Montana State General Fund. This change was enacted through the passage of SB83 by the 1995 Legislature and signed into law by Governor Racicot in April 1995. The transfer obligations outstanding at March 31, 2015 and 2014 were $2,723,226 and $2,417,228, respectively.

Other Postemployment Benefits (OPEB).

General. The State of Montana and the Montana Lottery provide optional postemployment healthcare benefits in accordance with Montana Code Annotated, Title 2, Chapter 18, Section 704 to the following employees and dependents who elect to continue coverage and pay administratively established contributions: (1) employees and dependents who retire under applicable retirement provisions, and (2) surviving dependents of deceased employees. Medical, dental, and vision benefits are available through this plan.

Plan Description. The State OPEB plans are agent multiple employer plans. There are a number of State agencies who are participating employers under this plan. Each participating employer is required by GASB Statement No. 43 to disclose additional information regarding funding policy, the employer's annual OPEB cost and contributions made, the funded status and funding progress of the employer's individual plan, and actuarial methods and assumptions used.

The healthcare OPEB plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of an "implied rate" subsidy in the related financial statements and footnotes. While this liability is disclosed for financial statement purposes, it does not represent a legal liability of the State or any of its component units. Accordingly, reported contributions are not a result of direct funding to the plans or for associated liabilities, but are a measure of the difference in retiree payments into the plans and actual medical costs associated with those individuals paid for by the plans. The healthcare OPEB plans are reported as agency funds. There are no assets or liabilities as only contributions collected and distributions made are reflected in these funds. See the funding policy that follows.

Bases of Accounting. OPEB is recorded on an accrual basis for all enterprise and internal service funds as well as component units. OPEB is recorded on a modified accrual basis for the governmental funds. Plan member contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Funding Policy. The State of Montana pays for postemployment healthcare benefits on a pay-as-you-go basis. Montana Code Annotated, Title 2, Chapter 18, Part 8 gives authority for establishing and amending the funding policy to the Department of Administration. As of June 2014, the State plan's administratively established retiree medical premiums vary between $299 and$1,109 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between $17.50 and $60 and vision hardware premiums vary between $5.76 and $16.76 depending on the coverage selected.

Annual Other Postemployment Benefit Cost and Contributions. The annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement No. 45, represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table presents the OPEB cost for the year, the amount contributed, and changes in the OPEB plans for fiscal year 2014 and 2013:

Year ended June 30,	2014	2013
Annual Required Contribution/OPEB cost	$ 84,123	$ 80,845
Interest on net OPEB obligation	19,313	16,460
Amortization Factor	(15,111)	(12,910)
Annual OPEB cost	88,325	84,395
Retiree Claims Paid	(16,882)	(10,138)
Increase in net OPEB obligation	71,443	74,257
Net OPEB obligation – beginning of year	461,119	386,862
Net OPEB obligation – end of year	$ 532,562	$ 461,119

The Lottery's annual healthcare OPEB cost, the percentage of annual implicit contributions toward the OPEB cost through retiree claims paid on their behalf, and the net OPEB obligation for the fiscal years 2014 through 2012 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	$ 88,325	19.1%	$ 532,562
6/30/2013	$ 84,395	10.0%	$ 461,119
6/30/2012	$ 79,321	12.1%	$ 386,862

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions being actual results are compared with past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective.

Commissions. Section 23-7-301(10), MCA, provides retailers a commission on scratch and lotto tickets or chances sold. The Lottery Commission established this commission at 5% of the face value of scratch tickets activated by the retailers and the face value of lotto tickets sold. Section 23-4-302 (5)(b)(i), MCA establishes a 3.99% commission of the face value of Fantasy Sports tickets sold. In addition retailers can earn bonus commissions on tickets sold based on incremental sales of scratch tickets. For the quarter and nine months ended March 31, 2015 retailers earned bonus commissions of $133,398 and $359,732, respectively. For the quarter and nine months ended March 31, 2015 total commissions were $807,157 and $2,393,069, respectively.

4. PAYMENTS TO OTHER STATE AGENCIES

The Lottery receives a variety of services, supplies, and materials from other state agencies. These services and materials are detailed below for the nine months ended March 31, 2015:

Insurance	$ 10,976
Warrant Writing Services	332
Payroll Services	5,523
Audit Fees	27,327
Computer Fees	47,207
State Accounting System Support	2,296
Mail Processing Fees	8,038
Telecommunications	9,185
Other	541
Administrative Service Fees	48,614
TOTAL	$ 160,039

5. PRIZES

Paid Prizes. Section 23-7-402, MCA states, "A minimum of 45% of the money paid for tickets or chances must be paid as prize money". Prize expense is recorded based on the predetermined prize structure percentage for each game less unclaimed prizes. For the quarter ended March 31, 2015, the prize expense of $7,529,194 is 56.6% of net Lottery ticket revenue of $13,291,287. For the nine months ended March 31, 2015, the prize expense of $22,838,389 is 56.9% of net Lottery ticket revenue of $40,126,494.

6. TRANSFER TO STATE GENERAL FUND

Section 23-7-402(3), MCA, states "That part of all gross revenue not used for payment of prizes, commissions, and operating expenses, together with the interest earned on the gross revenue while the gross revenue is in the enterprise fund, is net revenue. Net revenue must be transferred quarterly from the enterprise fund established by 23-7-401 to the State General Fund." For the quarter ended March 31, 2015, the net revenue payable to the State General Fund totaled $2,723,226.

7. MULTI-STATE LOTTERY

In November 1989 the Montana State Lottery joined the Multi-State Lottery Association (MUSL). MUSL was created in September 1987 to operate a multi-state lottery game for the benefit of party lotteries. Powerball, Wild Card, Hot Lotto, and Mega Millions are the games jointly operated by the members, in which Montana presently participates. Each lottery participating in MUSL is represented on the Board of Directors.

The Multi-State Lottery Reserve Fund with a balance of $1,383,323 and $1,614,248 as of March 31, 2015 and 2014, respectively, is comprised of several reserve accounts, which are maintained by the Multi-State Lottery Association (MUSL). The balance of these reserve accounts is as follows:

	March 31, 2015	March 31, 2014
Powerball Prize Reserve Account	$ 483,859	$ 522,958
Powerball Set Prize Reserve Account	210,615	227,373
Powerball Unreserve Account	169,531	207,275
Wild Card Prize Reserve Account	56,458	149,013
Hot Lotto Set Prize Reserve Account	297,464	297,464
Mega Millions Prize Reserve Account	165,396	210,165
Total	$1,383,323	$1,614,248

The Powerball Prize Reserve Account is to be used only in the event of an unanticipated prize claim. It is an insurance fund intended to protect the member lotteries against the liability that could result from a system failure at one of the member lotteries. All money paid to this fund would be returned to the Lottery one year after the Lottery leaves the Powerball game, assuming that no unanticipated prize claims have been paid. Interest earned on the Lottery's share of the fund, represented by the Unreserved Account, would be returned to the Lottery upon leaving MUSL. The amounts in the Unreserved Account may be used at the MUSL Board's discretion.

The Powerball Set Prize Reserve Account is used to fund prize payments for current drawings. Since the Powerball game has fixed prizes, it is often necessary to draw from this reserve to fund payment of prizes at the fixed amount. This account would be returned to the Lottery upon withdrawal from the Powerball Game.

The Lottery contributes to these reserve funds through the 50% set aside for prizes. In addition the Lottery was required to contribute for its portion of the reserve funds accumulated since the start of the Powerball game. Payments made to this fund are considered a portion of prize expense associated with the game.

The Powerball Unreserved Account is a separate account used by a participating Lottery to have MUSL hold funds due to the Lottery. Balances in this account are created when any MUSL jackpot expires and goes unclaimed. Each Lottery is then refunded its pro rata share of the jackpot based on sales during the accumulation of that specific jackpot. This money is then invested in U.S. Treasury securities until withdrawn. Interest earned on the Lottery's share of the fund is added to the Unreserved Account on a quarterly basis. The amount in the Unreserved Account has limited uses and are set and approved by the Board with the stipulation that requests to use the funds are accompanied by certification from the requesting Board Member that the payment is made in conformance with state or jurisdiction law and is related to a MUSL activity.

The Wild Card Reserve Account is to be used in the event of an unanticipated prize claim on the Wild Card game. This account is also administered by MUSL and would be returned to the Lottery one year after the Wild Card Product Group of Idaho, Montana, South Dakota, and North Dakota is disbanded. The Lottery contributes to this account through the 57% set aside for prizes. Payments made to this fund are considered a portion of prize expense related to the Wild Card game.

The Hot Lotto Set Prize Reserve Account is administered by MUSL and is to be used only in the event of unanticipated prize claims. Like other MUSL games the reserve amount would be returned to the Lottery one year after withdrawal from the Hot Lotto game. The Lottery contributes to the reserve through the 50% set aside for prizes. Payments made to the reserve are considered a portion of the prize expense related to the game.

The Mega Millions Prize Reserve Account is to be used only in the event of an unanticipated prize claim. It is an insurance fund intended to protect the member lotteries against the liability that could result from a system failure at one of the member lotteries. All money paid to this fund would be returned to the Lottery one year after the Lottery leaves the Mega Millions game, assuming that no unanticipated prize claims have been paid. The Lottery contributes to the reserve through the 51% set aside for prizes for Mega Millions plays and 50% for Megaplier plays. Payments made to the reserve are considered a portion of the prize expense

related to the game. The Lottery had just started cross-selling Mega Millions during the fiscal year end 2010.

8. GAMES

Currently, the Montana Lottery games are scratch ticket games, seven lotto games referred to as Powerball, Montana Ca$h, Wild Card, Hot Lotto, Mega Millions, 10 Spot, and Montana Millionaire, a limited edition lottery game. The lottery is facilitating Fantasy Sports Games on behalf of the Board of Horse Racing. Currently the Lottery is selling the Montana Sports Action Fantasy Football and the Racing games.

Scratch ticket games provide players the opportunity to win instantly by scratching latex covering to reveal a prize.

The Powerball game allows players the chance to win a minimum pari-mutuel jackpot of approximately $40 million. A player must match all 6 numbers to win the jackpot. Players win prizes ranging from $4 to $1,000,000 for matching fewer than all 6 numbers. Drawings are held twice weekly on Wednesday and Saturday nights. For any drawing, if no ticket matches 6 out of 6 numbers, the jackpot rolls over to the next drawing to create a progressive jackpot. In March 2001, the Lottery added Power Play to the Powerball game. For an additional $1 per play, the Power Play doubles the Match 5 prize from $1 million to $2 million and increases other prizes as well.

The Montana Ca$h game allows players the chance to win a minimum pari-mutuel jackpot of $40,000. Players select 5 numbers from a field of 45 and must match at least 2 out of 5 to win a prize. Matching 2 of 5 wins $1, 3 of 5 wins $5 and 4 of 5 wins $200. The drawing is conducted twice weekly on Wednesday and Saturday nights. If no ticket matches all 5 numbers, the jackpot rolls over to the next drawing to create a progressive jackpot.

The Wild Card game allows players the chance to win a pari-mutuel jackpot, with a guaranteed minimum of $200,000. Players select 5 numbers from a field of 33 plus one of 16 face cards and must match all 5 numbers and the wild card to win the jackpot; players win prizes from $1 to $6,000 for matching less than all 5 numbers and/or the wild card. Drawings are held twice weekly on Wednesday and Saturday nights. If no ticket matches all 5 numbers and the wild card, the jackpot rolls over to the next drawing to create a progressive jackpot.

Hot Lotto allows players in the 16 participating lotteries a chance to win an all-cash pari-mutuel jackpot with a guaranteed minimum of $1 million, plus tax withholdings paid. This change was implemented May 2013. Each time the jackpot is not won, it grows, thus creating a progressive jackpot. Players choose five numbers from 1 to 47, and one Hot Ball number from 1 to 19. To win the pari-mutuel jackpot, a player

must match all six numbers. If a player chooses, for an additional bet amount, to add Sizzler to their ticket, any prize except the jackpot is multiplied by three. Drawings are held twice weekly on Wednesday and Saturday nights.

Mega Millions is a multi-state game that allows players to win a minimum pari-mutuel jackpot starting at $12 million. Mega Millions went on sale March 1, 2010 in Montana. To win the jackpot, players must match all six numbers drawn; other prizes range from $2 to $250,000. Drawings are held each Tuesday and Friday. Mega Millions has a Megaplier option which multiplies non-jackpot prizes by two, three, or four. The Megaplier options costs $1 extra per play.

10 Spot, which went on sale February 1, 2010, is a Montana-only, twice daily game. Players select ten numbers from one through eighty. The Lottery draws twenty numbers, and players win by matching ten, nine, eight, seven, six, five, or none of the numbers drawn. Prizes range from $2 to $25,000.

Montana Sports Action is a product line introduced by the Lottery in August 2008 on behalf of the Board of Horse Racing. Montana Sports Action Fantasy Football was the first game within the Fantasy Sports Games to begin. Players choose five eligible offensive players and a defensive unit from the official roster of professional football players and teams, to create their own team. The players then choose a play amount ($5, $10, $20, $50, or $100) which determines the shares the player is eligible to win should their team have one of the three highest point totals for the week.

After completion of each week's professional football games, points are assigned to football players and defensive units based on their performance to determine the Lottery players' team's performance. Prizes paid must be 74% of sales for the week. How much the player wins is determined by their team's points and their share ($5 per share). Ticket sales are allowed each week of the professional football season beginning Tuesday morning for that week's games with no advanced purchasing allowed.

Fantasy Racing was introduced in February 2009, and follows the NASCAR® Sprint Cup Series. Fantasy Racing teams are created by selecting a driver from the top nine-ranked drivers for the week; three drivers ranked from ten through 34; and one driver ranked 35 or above. The sixth element in a player's Fantasy Racing team is the number of yellow-flag cautions the player believes might occur in that week's race. Players also choose the number of shares they wish to buy ($5, $10, $20, $50 or $100). Like Fantasy Football, the number of shares determines the amount of the prize each winning ticket will win. After each Sprint Cup race, points are assigned to each driver's performance, and teams with the top three point totals win. Ticket sales begin each week on Monday.

Montana Millionaire is a seasonal raffle-type game offering a $1 million top prize. The first offering went on sale October 1, 2007. The lottery has sold the game every winter since. Tickets are sold sequentially, and the 2014 game offered 135,000 tickets, which sell for $20 each. Early bird drawings for $10,000 were offered on Thanksgiving weekend and the second week of December to stimulate early sales. There were also 275 $50 instant winners and 575 $500 instant winners. Available tickets for the game sold out prior to the expected end of the game, selling out on December 23, 2014. On January 1, 2015, one $1 million prize was awarded, along with two $100,000 prizes and three $10,000 prizes. Montana Millionaire is scheduled to sell from November 1 through December 31, 2015, with a drawing on New Year's Day 2016.

9. COMMITMENTS - GAMING SUPPLIER CONTRACTS

Scratch Tickets. On June 27, 2008 the Montana Lottery Commission approved the award of a five-year contract with Scientific Games International (SGI) for the provision of scratch tickets. The contract is for five years with the option for two additional one-year renewals. The contract contains specifications regarding ticket design, printing, game ownership, inspection, and prize structure.

SGI, as the vendor, provided a performance bond covering the contract term and an errors and omissions policy covering an ultimate net loss of $3,000,000. The Lottery may terminate this contract by providing proper notification to Scientific Games.

On-line Services. On October 11, 2005, the Lottery signed a seven-year contract with Intralot, Inc. of Duluth, GA to provide an on-line gaming system and the associated services beginning March 31, 2006. The contract requires Intralot to provide new terminals to all retailers with the associated software and communications. Payment under the contract is based on 5.8% of net weekly Lottery sales of lotto and scratch games. On August 18, 2008 an addendum was signed to provide services for the Fantasy Sports games at 3% of net weekly Lottery sales up to $2,999,999 of Montana Sports Action games. The contract currently has a termination date of March 30, 2016.

10. LOTTO*AMERICA/POWERBALL/TRI-WEST JACKPOT PRIZES

Jackpot prizes awarded in the Lotto*America/POWERBALL and TRI-WEST LOTTO games are funded through the purchase of U.S. Treasury Zero-Coupon Bonds purchased in the name of the Montana Lottery by MUSL. MUSL will cash the bonds each year as they mature and will wire the funds to the Lottery for payment to winners on the Anniversary date of the win.

On January 13, 1990 the Montana Lottery awarded its first Lotto*America jackpot prize totaling $1,740,000. The first annual payment of $87,000 was made on February 1, 1990. On May 9, 1990 the Lottery awarded a second Lotto*America jackpot prize of $3,000,000. The first annual payment of $150,000 was made on May 23, 1990. A third jackpot prize was awarded on February 2, 1991 for $7,360,000. The first annual payment of $368,000 was made February 15, 1991. On November 23, 1991 a fourth jackpot prize was awarded totaling $46,967,738.57. The first annual payment of $2,355,738.57 was made December 12, 1991. On April 11, 1992 a fifth jackpot prize was won totaling $2,000,000. The first annual payment of $100,000 was made on April 27, 1992.

On July 6, 1994 the Montana Lottery awarded its first Tri-West Lotto jackpot prize totaling $700,565. The first annual payment of $35,000 was made on July 26, 1994.

On July 22, 1995 the Montana Lottery awarded its first Powerball jackpot prize totaling $31,401,655.99. The first payment of $1,571,655.99 was made on August 8, 1995. On April 5, 1997 the Lottery awarded a second Powerball jackpot prize totaling $11,000,000. The first annual payment of $550,000 was awarded on April 18, 1997.

On March 27, 1999 the Montana Lottery had a Powerball jackpot winner. The prize was $35.1 million ($19.35 million cash option). The winner chose the cash option and was paid a lump sum in June 1999.

On June 23, 2010 the Montana Lottery awarded its fourth Powerball jackpot prize. The total jackpot was $96,856,406 and was split between another ticket in Ohio. Half of the jackpot, which was again split between two winners in Montana, totaled $48.5 million (25.08 million cash option). The winners chose the cash option and were paid a lump sum in July 2010.

As of March 31, 2015, the combined total of future prize payments funded through the purchase of U.S. Treasury Zero-Coupon Bonds for Powerball winners was $1,100,000. Total annual payments due as of March 31, 2015 are as follows:

FYE	
2015	550,000
2016	550,000
	$ 1,100,000

11. LEASES/INSTALLMENT PURCHASES PAYABLE

Rent. The Montana Lottery leases its office, administrative and warehouse facilities under a lease agreement that is effective September 2007 through August 2017. The monthly lease payment is $12,492 through August 2015. The base rate will increase 3% annually.

Capital Lease. The Lottery has contracted with its vendor to lease equipment for the remaining life of its contract with them. Obligations under this capital lease/installment purchase at March 31, 2015 are as follows:

FYE	
2015	18,993
2016	55,423
Total Minimum Payments	74,416
Less: Interest	(2,248)
Present value of Minimum Payments	$ 72,168

12. INVESTMENT RISK DISCLOSURES

Effective June 30, 2005, the State of Montana implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*. The Lottery participates in two investment pools: the Multi-State Lottery Association (MUSL) reserve accounts and the State of Montana's Short Term Investment Pool (STIP). There are four types of risk that must be disclosed. These risks are defined below, followed by their applicability to each of the investment pools.

Multi-State Lottery Association The MUSL investment policy for prize reserve and unreserved funds states that permitted investments "include direct obligations of the United States government, perfected repurchase agreements, and obligations issued or guaranteed as to payment of principal and interest by agencies or instrumentalities of the United States government, and mutual funds of approved investments".

Short-term Investment Pool All short-term funds are held in the State's Short Term Investment Pool (STIP) administered by the Board of Investments (BOI). STIP is an external 2a-7 like pool.

Credit risk is defined as the risk that an issuer of an investment will not fulfill its obligation, i.e., not make timely principal and interest payments. The STIP securities have credit risk as measured by major credit rating services, however, the pool is not rated. The Lottery does not have a policy regarding credit risk

Per MUSL, the prize reserves held on behalf of the Montana Lottery are invested in the Montana Winners Trust and include 13% in securities held as obligations of the U.S. Government and are not considered to have credit risk. The other 87% of the prize reserves are invested in Federal Agencies and have an AAA credit quality rating. The Lottery does not have any authority or a policy regarding the investment portfolios.

Custodial credit risk is the risk that the Lottery would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party in the event of the failure of that party. Custodial credit risk does not apply to STIP because it is a 2a-7 like pool.

The MUSL prize reserves are held in the Montana Winners Trust using policies set forth by the MUSL board regarding policies for the type of securities, as well as the custody, trading and the use of proceeds of the securities. The Lottery does not have any authority or a policy regarding the investment portfolios.

Concentration of credit is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Because STIP is a pooled investment, this risk does not apply. Because the MUSL reserves are also a pooled investment, this risk does not apply to them either.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate risk does not apply to STIP because it is a 2a-7 like pool.

The MUSL prize reserves are invested through the Montana Winners Trust in the Morgan Stanley Government Portfolio Funds with daily liquidity and therefore have no interest rate risk. The MUSL board's investment policy limits the individual security and the portfolio's maturity. As of June 30, 2014, the duration for the U.S. Government Treasury securities was 1.34 years.

13. EMPLOYEE RETIREMENT PLAN

All Lottery employees hired are, initially, members of the Public Employees Retirement System – Defined Benefit Retirement Plan (PERS-DBRP). PERS-DBRP is a defined benefit cost sharing, multiple-employer public retirement system established on July 1, 1945 and governed by Title 19, chapters 2 & 3 of the Montana Code Annotated. This plan provides retirement, disability and death benefits to substantially all public employees and their beneficiaries not covered by another public plan.

New hires have a 12 month window during which they may choose to transfer to the Public Employees Retirement System – Defined Contribution Retirement Plan (PERS-DCRP) or remain in the current PERS-DBRP. Members may not be members of both plans. The choice is irrevocable. Members of the DCRP direct their contributions and a portion of their employer's contributions among the offered investment options. The remaining portion of their employer's contributions is used to reduce the Plan Choice Rate unfunded actuarial liability, to fund the long-term disability benefits to participants of the DCRP, and to fund an employee education program.

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